HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation
www.cmhc.ca

NEW HOME MARKET

Industry will Operate at Capacity

The residential construction sector in Winnipeg is showing its best performance since the late 1980s. To the end of August, the Winnipeg Census Metropolitan Area (CMA) had recorded 1,772 total housing starts, an increase of 1.2 per cent over the activity recorded during the first eight months of 2005. With building permits pointing to a strong finish to the year for single-detached and multi-family construction, total housing starts in the Winnipeg Census Metropolitan Area (CMA) are poised to reach 2,700 units in 2006. This will represent the fourth consecutive year that annual activity has surpassed 2,400 units. Total starts will edge up to 2,800 units in 2007.

Single-detached units will continue to account for most of the new housing starts. While it is fair to say that current demographic and economic conditions point to sustained levels of construction, the impact of historical forces on current levels of new home construction can not be understated. Arguably, a significant portion of the current demand for newly constructed single-detached dwellings is a result of conditions which prevailed throughout the 1990s.

An examination of data reveals that the 1991 to 2000 period represents the era with the lowest level of single-detached starts on record. Over this period, the annual average for single-detached starts within the CMA was around 1,115 units compared to 2,451 units from 1981 to 1990. During the 1990s, activity in the residential construction sector was suppressed due to high levels of supply in the resale market and a high vacancy rate in the rental market. The result was that new home construction did not keep pace with new household formation. Consequently, to meet their housing needs, these new households turned to the existing rental and resale markets. From 1991 to 2000, the rental apartment vacancy rate across the Winnipeg CMA trended downward from 6.6 per cent to two per cent while the duration of supply in the resale market was trimmed from 6.5 months in late 1994 to about 2.5 months in late 2000.

WINNIPEG

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With the rental vacancy rate and the supply level in the resale market diminished in late 2000, a number of factors were converging together to act as catalysts for rising demand for newly built homes. Due to continued job creation, the unemployment rate had dipped to 5.3 per cent by 2000 after peaking at 11 per cent in 1993. The combination of an improved labour market and the reduction of mortgage rates to historical lows

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60 YEARS ANS

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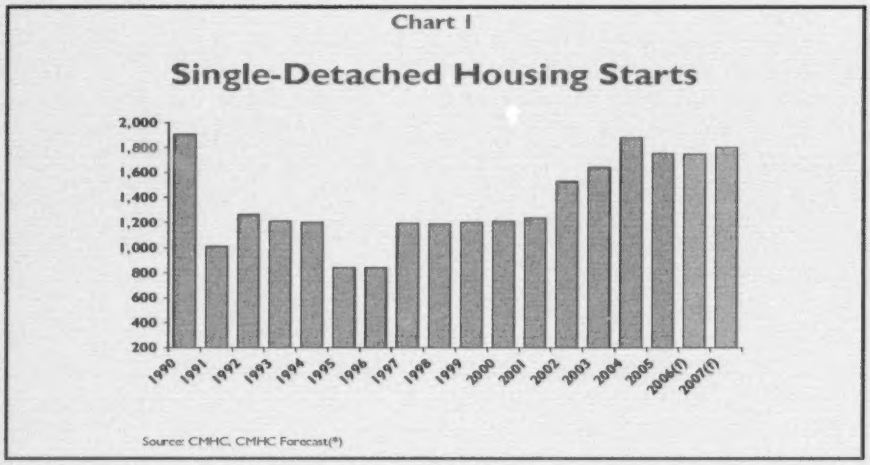
Chart 1



created the perfect recipe for a resurgence in demand for homeownership. With an increasing number of households unable to find a home in the resale market, this unsatisfied demand spilled over into the new home market and pushed single-detached starts up from 1,238 units in 2001 to 1,528 units in 2002. Since 2002, new home construction in Winnipeg has continued to benefit from a strong job market and persistently low mortgage rates.

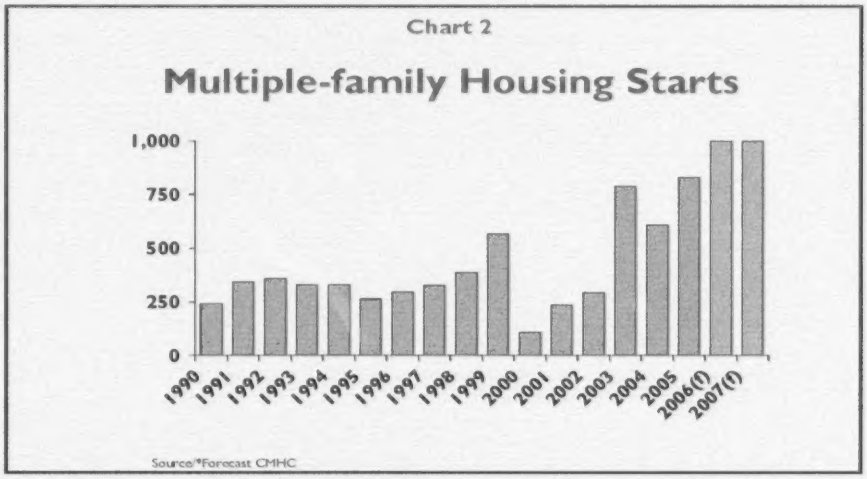
Meanwhile, demand for new homes has been fuelled by a recovery in net migration. With more people moving in than moving out, household growth in Winnipeg is showing its strongest gains since the late 1980s. These economic and demographic conditions warrant annual single-detached housing starts of about 1,750 units in 2006 and 1,800 units in 2007. These activity levels mean that the residential construction industry across the Winnipeg CMA will continue to operate at full capacity over the foreseeable future. With so many single-detached starts, the under construction count across the region is at a 16 year high. This does not mean that the market is in danger of becoming oversupplied. Discussions with builders indicate that the vast majority of units under construction are already spoken for and will be absorbed upon completion.

The one dark cloud on the horizon is the rising price of a newly constructed single-detached home. From January to August 2006, about 28 per cent of the new single-detached homes absorbed across the Winnipeg CMA were ranged in price from $200,000 to $250,000 while 46 per cent were priced over $250,000. This is a major shift from 2001 when about 70 per cent of the newly absorbed single-detached dwellings were priced from $120,000 to $200,000.

The latest release from Statistics Canada shows that the new home price index for Winnipeg increased by 9.7 per cent from July 2005 to July 2006 due to rising costs for labour, materials, and land. The rise in land costs in part can be attributed to diminishing supply in the southeast and southwest parts of the city. Until three years ago, these quadrants accounted for about 75 to 80 per cent of the single-detached starts within Winnipeg city. In 2005, this share declined to 52 per cent with most of the reduction occurring in the southwest within areas such as Linden Woods, Whyte Ridge, Richmond Ridge, and Fairfield Park reaching built-out conditions. With the recent approval of the Kenaston extension and the second reading by city council of the area structure plan of Waverly West, it is anticipated that new lots will become available in the southwest by fall 2007. However, until this happens, land costs in the southwest and southeast parts of the city will continue to face upward pressure. It should be noted that the average price of a new single-detached home will continue to rise since homes built in the southwest and southeast quadrants tend to be larger and higher priced than those in other parts of the city. The average price of a new single-detached home is forecast to rise from $265,000 in 2006 to $300,000 in 2007.

Rising costs of owning a single-detached home could prove to be beneficial for multi-family starts which include semi-detached, row and apartment units. Homebuyers in other major centres are increasingly turning towards this form of housing as it is a

Chart 2



less costly alterative to a single-detached dwelling. The same potential exists in Winnipeg since over half of the population is distributed within age brackets where first time and move-up buying occurs. While Winnipeg is not renowned for high levels of multi-family construction when compared to other major centres in Canada, a condominium market has begun to emerge over the last few years.

Total multi-family starts at the end of August numbered 591, about 18 units less than the total that were started from January to August 2005. Building permits have also been issued for another 904 units, which are slated for either condominium or rental tenure. It is anticipated that at least some of these units will begin construction prior to year-end bringing the full year total of multi-family starts in 2006 to 1,000 units. Continued demand for condominium units from first-time buyers and empty nester households will result in another 1,000 multi-family starts in 2007.

RESALE MARKET

Price gains will continue

In 2006, the resale market in Winnipeg experienced the strongest January to August performance on record for units sold. With 8,337 sales recorded through the first eight months of the year, total sales are about one per cent ahead of last year's pace, and on an annual basis, and are poised to exceed the 11,000 unit level for only the third time in history. By year-end, CMHC expects 11,500 sales to be achieved, up from 11,415 in 2005.

Gains in sales have been made possible by demand and supply side dynamics. Looking at demand side factors, credit must be given to persistently low mortgage rates, along with a positive job climate and growth in the number of households. On the supply side, a 13 per cent rise in active listings to-date has enabled more buyers to choose a home in resale market whereas from 2003 to 2005, they may have had to look at a newly built home to meet their needs.

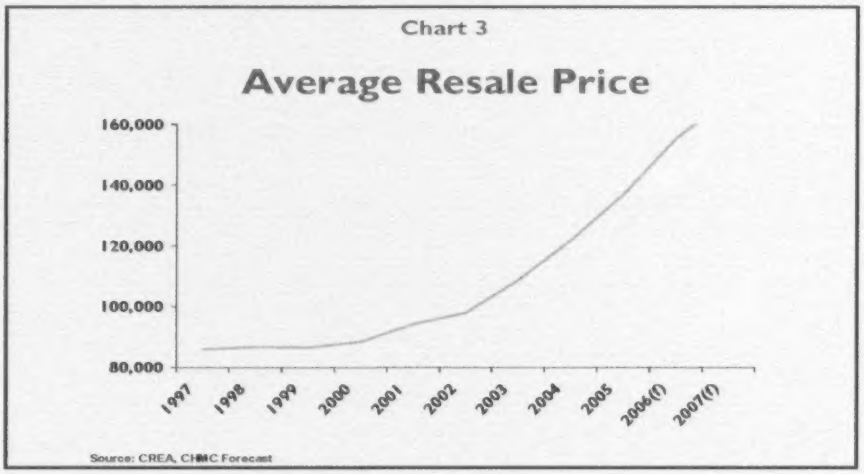
The rise in active listings has been triggered by the impressive price gains witnessed over the past few years. The average MLS price since 2000 has escalated at an average annual rate of eight per cent to reach $137,062 in 2005. Rising prices are encouraging existing homeowners to list their properties and switch to homes that are more commensurate with their current lifestyle, be it either higher priced single-detached homes or condominium units offering more carefree living to empty nester households.

Despite more listings, the overall supply in the market is barely keeping pace with demand. Indeed, this has been the case since 2000. The resale market in Winnipeg began to show signs of vigour during the last three years of the 1990s. During that period, there were certain neighbourhoods within the city where market conditions could be described as being 'hot'. However, with mortgage rates trending down to record lows during the early years of the new millennium, demand began to match or outpace the level of supply across all areas of the city.

Since mid-2001, the existing home market across the Winnipeg Census Metropolitan Area has been characterized by less than two months of supply, meaning that if no new listings were to come on the market, the current level of sales would deplete the stock of active listings in less than 60 days. The lack of supply has resulted in multiple bids being received for homes on the market with many buyers offering bids in excess of the list price. Solid price gains have continued into 2006. At nearly $155,000, the average MLS price to the end of August was up more than 13 per cent from last year.

The age distribution of the population of Winnipeg and prevailing economic conditions should translate into another strong year for MLS sales in 2007. An examination of homeownership by age from past Statistics Canada censuses reveals that rate of homeownership in Winnipeg increases from about 50 per cent for households headed by someone

Chart 3



between the ages of 25 to 34 to about 70 per cent for households where the primary maintainer is aged between 35 to 44 years. The rate of homeownership peaks at about 77 per cent when the household head is between the ages of 45 to 64. Presently, about 14 per cent of Winnipeg's population is between the ages of 25 to 34 and about 41 per cent is aged between 45 to 64 years. With over half of the population of Winnipeg in the first-time or move-up buyer life cycle phase, demand for homeownership should continue to outweigh the demand for rental housing. Moreover, with over 80 per cent of the workers between the ages of 25 to 64 anticipated to have full time employment over the forecast period, these households will be in a position to purchase a home. However, a continued lack of active listings will restrain gains in sales. Double digit per cent hikes in the average price have failed to create a surge in active listings in recent years and there is no reason to presume that conditions will change dramatically in the coming months. The combination of demand and supply will result in a modest gain in MLS sales from 11,500 units in 2006 to 11,750 units in 2007. The average MLS price over the same period will increase by 8.4 per cent from $155,500 to $168,500.

RENTAL MARKET

Modest increase in vacancy rate anticipated

CMHC's October 2005 Rental Market Survey revealed a vacancy rate of 1.7 per cent across the Winnipeg Census Metropolitan Area, marking the sixth consecutive year that the vacancy rate was below two per cent. This continues to be the case in 2006. While it is true that some renter households have moved into homeownership in 2006, the creation of new renter households from the existing population and the arrival of new immigrant renter households, and no significant increase in rental supply, the apartment vacancy rate in the Winnipeg Census Metropolitan Area (CMA) is expected to dip from 1.7 per cent in October 2005 to 1.5 per cent in October 2006. However, with the anticipated completion of several new rental projects over the next twelve months, the apartment vacancy rate will edge up to 2.1 per cent by October 2007.

ECONOMIC OVERVIEW

Conditions favourable for housing demand

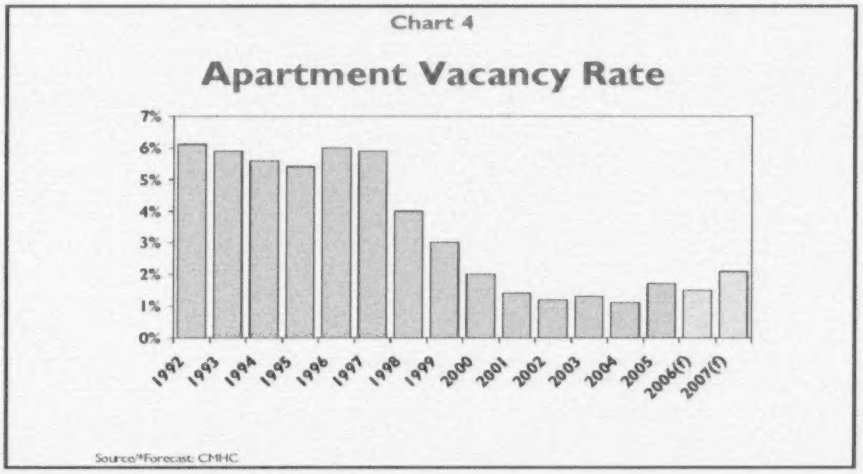
Current economic conditions in the Winnipeg CMA as evidenced by labour market indicators remain favourable for housing demand. About 84 per cent of the workers between the ages of 25 to 44, the prime age category for first-time and move-up buyers have a full time job. The employment environment is expected to positive over the forecast period. At 4.2 per cent, Winnipeg's unemployment rate in 2007 will be over two percentage points below the national average. Economic growth will be spread out across several sectors. Nevertheless, some of the standouts will be the construction sector due to high levels of investment in commercial, industrial and residential construction. On the service side, the finance, insurance and real estate sector and will be prominent due to high levels of investment in the construction sector.

Mortgage rates have peaked

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2007.

Mortgage rates rose by 1.0-1.5 percentage point between September 2005 and September 2006. Mortgage rates are expected to remain low, easing by 25-75 basis points over the next two-three quarters before starting to climb higher. One, three and five-year posted mortgage rates are forecast to be in the 5.50-6.50, 5.75-6.75, and 6.00-7.00 per cent ranges respectively over the rest of this year and in 2007.

Chart 4



FORECAST SUMMARY

Winnipeg Census Metropolitan Area

Fall 2006

	2004	2005	%Chg	2006(f)	%Chg	2007(f)	%Chg
RESALE MARKET							
MLS®(1) new listings (Monthly Avg.)	1,098	1,167	6.3%	1,300	11.4%	1,400	7.7%
Total MLS® Sales	$10,797	$11,415	5.7%	$11,500	0.7%	$11,750	2.2%
Average MLS® Price	$121,925	$137,062	12.4%	$155,500	13.5%	$168,500	8.4%
NEW HOME MARKET							
Starts							
Total	2,489	2,586	3.9%	2,750	6.3%	2,800	1.8%
Single-family	1,882	1,756	-6.7%	1,750	-0.3%	1,800	2.9%
Multiple-family	607	830	36.7%	1,000	20.5%	1,000	0.0%
Average New House Price							
Single-family	$232,032	$252,252	8.7%	$265,000	5.1%	$300,000	13.2%
RENTAL MARKET							
Vacancy rate (Oct)	1.1	1.7		1.5		2.1	
2-bedroom Rent (Annual % Chg)	3.0%	2.9%		3.3%		3.5	
ECONOMIC OVERVIEW							
Mortgage rate (3 yr term)	4.59	5.06		6.27		6.0 - 6.25	
Mortgage rate (5 yr term)	6.23	5.99		6.67		6.25 - 6.75	
Employed	376,300	374,700	-0.4%	383,000	2.2%	387,000	1.0%
Employment growth (# jobs)	6,200	-1,600		8,300		4,000	
Net-migration (Census Year [2])	3,466	2,645	-23.7%	2,800	5.9%	3,000	7.1%

Source: CMHC, Statistics Canada, Canadian Real Estate Association, CMHC Forecast

1 Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association

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